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C O N F I D E N T I A L SECTION 01 OF 03 RIYADH 001407

SIPDIS

DEPARTMENT FOR NEA/ARP, EB/ESC, S/CIEA
PASS TO USTR FOR CHRIS WILSON AND JASON BUNTIN

E.O. 12958: DECL: 10/21/2019

TAGS: EFIN ECON ENGR ETRD PREL SA

SUBJECT: SAUDI FINANCE MINISTER CALLS FOR SPECIFIC STEPS TO
IMPROVE TIES WITH U.S.

REF: (A) STATE 108183 (B) RIYADH 1365

Classified By: Ambassador James B. Smith, reasons 1.4 (b and d).

¶1. (C) Summary: Saudi Finance Minister Ibrahim Al-Assaf believes the Saudi economy is generally on track to meet its 2009 targets. Saudi Arabia will maintain its domestic investment program as part of international efforts to ensure that stimulus packages continue until the world economy recovers. Al-Assaf lauded U.S. leadership at the Pittsburgh G20 summit. While Saudi Arabia was generally pleased with the outcomes of the summit, it will look for U.S. support not to lose any of its IMF quota share. Al-Assaf underscored the importance the Saudi Government places on a strong bilateral relationship with the U.S. He called specifically for the conclusion of a double-taxation agreement, and urged the U.S. to consider negotiating a Free Trade Agreement with the GCC. He also stressed Saudi Arabia's commitment to continue a generous foreign assistance program, including to Pakistan, which he noted is not adequately reflected in current discussions of rebalancing IMF (and World Bank) quotas. End Summary.

All Quiet on the Domestic Economic Front:

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¶2. (C) On October 21, Saudi Finance Minister Ibrahim Al-Assaf told the Ambassador that he is not worried about any specific issues regarding the domestic economy. His biggest challenge is maintaining the pace of the Kingdom's \$400 billion domestic investment program, which he characterized as Saudi Arabia's contribution to the international fiscal stimulus. Al-Assaf said that he was pleased the Saudi Government (SAG) was able to stick to its budget and resist pressures last year to spend the windfall from higher oil prices. The last few years' savings provided Finance with the buffer it needed to continue the investment program when oil prices fell to \$30/barrel this spring. Al-Assaf underscored the importance of continuing to closely follow Saudi Arabia's established budget targets.

Admiration for U.S. Leadership in the G20:

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¶3. (C) Al-Assaf was very complimentary of President Obama's leadership and that of senior USG officials, which he credited with achieving consensus at the Pittsburgh Summit on a number of difficult issues. He stressed the importance of continuing efforts to reform the international financial system, and to continue stimulus programs until the world economy gets "out of the woods." Al-Assaf is proud of the role Saudi Arabia is playing as the G20 representative of oil producers and Arab countries. Al-Assaf said this is an extension of the leadership role that Saudi Arabia plays in

the Islamic world, and fits in with Saudi Arabia's international activism. He noted that Saudi Arabia's assistance policies are a good example of this activism, as Saudi Arabia gives significantly more than the international standard of 0.7 percent of its GDP. Al-Assaf also noted that Saudi Arabia will look to continue to play a "responsible role" in the IMF, World Bank, and regional development banks.

¶ 14. (C) Al-Assaf supported the decision to shift IMF quotas from developed countries to emerging countries. He stressed, however, that this shift should not come from Saudi Arabia's share. Instead, it should be from European countries. Al-Assaf argued that Saudi Arabia's importance is much greater than its percentage of world GDP. He noted that Saudi Arabia has always been a significant supporter of the IMF, providing it with funds year in and year out for crises. Its role as the world's largest oil exporter is also not fully captured in the GDP share. Al-Assaf said that Saudi Arabia will count on support from the United States on this issue.

U.S. Relations:

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¶ 15. (C) Al-Assaf said Saudi Arabia deeply values its relationship with the United States, which has lasted many decades. Al-Assaf was pleased that relations seem to be back on track, recovering from their "detour" after 9/11. He said that close contact with U.S. officials at the Federal Reserve and in Washington was very much appreciated during last year's financial crisis, including coordinating positions within the International Financial Institutions. Al-Assaf

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noted that U.S. companies have always enjoyed a preeminent position in trade and investment, although this is increasingly challenged by other countries. Al-Assaf said it was important for Saudi Arabia that our investment and trade relationship remain strong and vibrant.

¶ 16. (C) In that regard, Al-Assaf pushed for concluding two agreements that he thought would strengthen our relations. The first is an agreement on the avoidance of double taxation, which he would like to conclude soon. The second would be to reopen discussions between the U.S. and the GCC on a Free Trade Agreement (FTA). Al-Assaf noted that the United States has already signed FTAs with two GCC members, Oman and Bahrain. Al-Assaf noted this caused significant heartache within the GCC, as the GCC had always intended to proceed with these kinds of trade agreements as a group. This is now causing headaches for Saudi Customs, for instance, as it has to apply different tariffs on goods, despite the GCC customs union. Al-Assaf understood the U.S. position is that it would prefer to sign agreements with individual countries, although he was aware we had recently signed an agreement with a Caribbean group. Al-Assaf concluded by expressing the hope that the U.S. could conclude an FTA with the GCC before the EU. He said the GCC is "fed up" with the EU because it continues to place new conditions on the negotiations. As a result, they have officially suspended EU negotiations (in December 2008). (Note: GCC officials made the same pitch for a GCC-U.S. FTA to visiting AUSTR Chris Wilson on October 20. End Note)

Energy:

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¶ 17. (C) Al-Assaf expressed satisfaction with the price of oil over \$70/barrel. He attributed much of last year's run up in price to speculation. Saudi Arabia believes it makes sense to bring the market mechanisms used for last year's speculation under greater supervision to allow them to continue to be useful for markets without fueling speculation. Al-Assaf said it is impossible for producers and consumers to pursue a policy of independence from each other. Instead, they need to pursue cooperation. Al-Assaf

said this is why Saudi Arabia sponsored the International Energy Forum (IEF) in Riyadh, which demonstrates Saudi Arabia's commitment to cooperation and dialogue between producers and consumers. Al-Assaf stressed that security of demand is just as important for Saudi Arabia as security of supply is for consumers. He noted that Saudi Arabia has seen calls before (e.g., the late 1970's) to increase production at a time of high prices, only to invest billions in spare production which never reaches the market. Al-Assaf said Saudi Arabia had made a major commitment to the world's future stability and growth by investing to increase capacity to 12.5 million barrels a day, which he expected would all be used eventually. Despite the financial crisis, he said the MOF made sure these investments stayed on track in 2008, which demonstrates Saudi's commitment to the health of the world economy.

¶18. (C) Particularly against that backdrop, it is very important, Al-Assaf said, that Saudi Arabia not feel targeted in international discussions on energy or environmental issues. While Saudi Arabia supports greater energy efficiency, and is looking into other sources of energy such as nuclear and solar, it is important to avoid international moves to impose heavy taxes on oil to subsidize other forms of energy. Saudi Arabia gets particularly concerned when fuels like coal, which pollutes more than oil, receive subsidies while oil is taxed.

Foreign Assistance:

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¶19. (C) The Ambassador thanked Al-Assaf for Saudi Arabia's continued assistance for Pakistan, and hoped the Kingdom would remain closely engaged (ref A). Al-Assaf said the head of the Saudi Fund for Development would travel "in a few days" to Pakistan for a signing ceremony to deposit part of the pledge Saudi Arabia made in Tokyo (ref B), and implement part of the export facility. Al-Assaf also said that Saudi Arabia has told the UN secretariat that it will contribute \$100 million for Pakistani refugees (SFD officials have indicated this will be divided between a number of UN agencies per an agreement between the SFD and the UN's country committee for Pakistan). He promised that Saudi Arabia will continue to work with Pakistan, and hoped also to

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continue to support Afghanistan.
SMITH